

CHAPTER 6. CAPITAL LEASES**TABLE OF CONTENTS**

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CHAPTER 6. CAPITAL LEASES

6.1 OVERVIEW.

- 6.1.1 Purpose. This chapter prescribes accounting policies and procedures for Property, Plant, and Equipment (PP&E) leased by NASA and subject to capitalization.
- 6.1.2 Applicability and Scope. This chapter applies to all PP&E leased by NASA that are subject to capitalization. These requirements are applicable to NASA Headquarters and NASA Centers, including Component Facilities, and to NASA contractors, to the extent that PP&E reporting requirements are incorporated in contracts.

6.2 AUTHORITIES AND REFERENCES.

- 6.2.1 Statement of Federal Financial Accounting Standards (SFFAS) No. 6, Accounting for Property, Plant and Equipment (as amended by SFAS Numbers 14, 16, and 23)
- 6.2.2 Office of Management and Budget (OMB) Circular No. A-11, Preparation, Submission and Execution of the Budget, Section 33 and Appendix B

6.3 ROLES AND RESPONSIBILITIES.

- 6.3.1 Center Supply and Equipment Management Officer (SEMO). The Center SEMO is responsible for determining fair value and useful life of leased PP&E and notifying the Center Chief Financial Officer (CFO)/ Center Deputy Chief Financial Officer (Finance) (DCFO)(F) if the results of the determinations indicate leased PP&E meets the capitalization criteria.
- 6.3.2 Center Chief Financial Officer/Center Deputy Chief Financial Officer (Finance) (DCFO)(F). The Center CFO/Center DCFO(F), (or the Center DCFO if a Center DCFO(F) has not been designated), is responsible for evaluating the terms of the lease agreement and notifying the SEMO if the terms indicate leased PP&E is subject to capitalization. The Center CFO/DCFO(F) is also responsible for ensuring adequate financial controls are in place and financial records and reports accurately reflect the status of the capital leases under the cognizance of the Center.
- 6.3.3 Agency Office of the CFO (OCFO), Property Branch. Agency OCFO, Property Branch is responsible for adequate agency wide financial and general ledger control over the Agency's capital leases.

6.4 DEFINITIONS.

- 6.4.1 Noncancelable. A PP&E lease is considered noncancelable if it can only be canceled under one of the following conditions: 1) upon occurrence of a remote contingency, 2) with the permission of the lessor, 3) if the lessee enters into a new lease with the same lessor, or 4) if the lessee incurs a

penalty in such amount that continuation of the lease appears, at inception, reasonably assured.

- 6.4.2 Bargain Price. Price (less than fair market value) at which NASA has the option to purchase leased PP&E which makes exercise of the option almost certain.
- 6.4.3 Estimated Economic Life. Estimated remaining period during which the PP&E is expected to be economically usable by one or more users, with normal repairs and maintenance, for the purpose for which it was intended at the inception of the lease, without limitation by the lease term.
- 6.4.4 Minimum Lease Payments. Payments NASA is obligated to make or can be required to make in connection with leased PP&E.
- 6.4.5 Fair Value. Price for which leased PP&E could be sold in an arm's-length transaction between unrelated parties.
- 6.4.6 Interest Rate Implicit in the Lease. Discount rate that, when applied to the minimum lease payments (less executory costs and unguaranteed residual value), causes the aggregate present value at the beginning of the lease term to be equal to the fair value of the leased PP&E at the inception of the lease.

6.5 IDENTIFICATION.

- 6.5.1 Proper and timely identification of capital leases of PP&E by the responsible officials are essential for the control, accounting and reporting of capitalized assets. All NASA Centers including Headquarters and component facilities involved in leasing PP&E should work with the property accountants and/or financial offices to determine whether the leased asset meet the capital lease criteria.

6.6 CAPITALIZATION CRITERIA.

- 6.6.1 Capital Leases. PP&E under a lease where the terms of the agreement are essentially equivalent to an installment purchase of PP&E and the capitalization criteria outlined below are met will be capitalized. In accordance with OMB Circular No. A-11, Preparing and Submitting Budget Estimates, Section 33 and Appendix B, for all lease-purchases and leases of capital assets, there must be sufficient budgetary resources up front to cover the present value of the lease payments discounted using Treasury interest rates.
- 6.6.2 Capitalization and Depreciation Criteria.
 - A. Leased PP&E is subject to capitalization if its fair value is \$100,000 or more, its useful life is 2 years or more, and the terms of the agreement are equivalent to an installment purchase by meeting **any one** of the following criteria.

1. The lease transfers ownership to NASA at the end of the term.
 2. The lease contains an option to purchase at a bargain price.
 3. The noncancelable length of the lease is equal to or greater than 75 percent of the estimated economic life of the PP&E.
 4. The present value of the rental or other minimum lease payments, excluding that portion of the payments that represents executory costs, such as insurance, maintenance and taxes to be paid by NASA, equals or exceeds 90 percent of the fair value of the PP&E.
- B. Note: The last two criteria are not applicable if the beginning of the lease term falls within the last 25 percent of the total estimated economic life of the leased PP&E. The rental of space from General Services Administration (GSA) does not qualify as leased PP&E subject to capitalization.

6.7 VALUATION.

- 6.7.1 The present value of the minimum lease payments shall be computed using the Treasury Average Interest Rate for Marketable Interest-Bearing Debt unless:
- A. It is practicable for NASA to obtain the interest rate implicit in the lease computed by the lessor; and
 - B. The implicit rate computed by the lessor is less than the Treasury Average Interest Rate for Marketable Interest-Bearing Debt.

6.8 RECOGNITION.

- 6.8.1 Each item of leased property, addition, improvement, alteration, rehabilitation, or replacement that meets the capitalization criteria will be treated as a single event and all costs incurred in relation to that event, regardless of when they are paid, will be recorded in the general ledger as an asset. The total cost of each leased property item will be considered a single event regardless of whether the work was performed on multiple contracts.
- 6.8.2 Leased PP&E that meets the above criteria will be recorded as an asset. The amount recorded shall be equal to the amount recognized as a liability for the capital lease at its inception (the net present value of the lease payments calculated as discussed above, unless the net present value exceeds the fair market value of the PP&E, in which case the liability will be the fair value).
- 6.8.3 Interest expenses will be recognized as a portion of the lease payments and will be calculated based on the interest rate used to compute the present value of the minimum lease payments.

6.9 AMORTIZATION.

- 6.9.1 The recorded cost (fair value) of the leased asset shall be amortized over the life of the lease.

6.10 DISPOSAL.

- 6.10.1 The disposition of an asset under capital lease shall be recorded by removing the asset (by crediting SGL 1810.1000 Capital Lease) and the corresponding Capital Lease Liability Account and Accumulated Depreciation on Capitalization (SGL 1819.1000). Any loss on the disposition of the asset under capital lease should be recognized and recorded at the time of the disposal of the asset under capital lease.

6.11 REPORTING.

- 6.11.1 Reporting Requirements. Leased PP&E subject to capitalization are reported in the Capital Leases Report, submitted to the Agency Office of the CFO. All other PP&E leased for periods in excess of one year including capitalized leases less than \$100,000, and those agreements where NASA is the lessor shall be reported in the Operating Leases Report.

6.12 FINANCIAL CONTROLS.

- 6.12.1 The following general Ledger Accounts listed in Table 6-1 are applicable to Capital Lease and will be posted to those accounts using SAP's Asset Accounting T-Codes.

Table 6-1 Capital Leases Accounts and Titles

Account Number	Account Title
1810.1000	Capital Lease
1819.1000	Accumulated Depreciation on Capital Lease
2940.0000	Capital Lease Liability
6610.1000	Cost Offset – Assets